HOUSING MARKET OUTLOOK
Sherbrooke CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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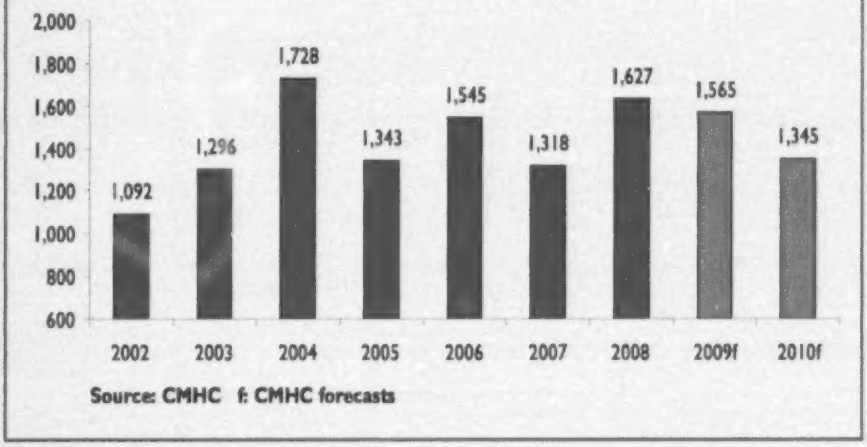
Housing starts to fall but MLS® sales to rise in 2010 in the Sherbrooke CMA

With a gradually strengthening job market and still favourable financing conditions, the housing market situation in the Sherbrooke census metropolitan area (CMA) will be somewhat different this year[1]. After having stagnated in 2009, existing home sales registered through the Multiple Listing Service (MLS)® will rise by 4 per cent next year. Housing starts, for their part, will fall by 14 per cent in 2010. This decline will result from the level of housing activity in 2009, and not from the deterioration of economic conditions.

Figure 1

Housing Starts – Sherbrooke CMA



Source: CMHC f: CMHC forecasts

[1] The forecasts included in this document are based on the information available as of October 1, 2009

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Employment to increase slightly in 2010

In 2009, the Sherbrooke area was spared by the slowdown in economic activity that affected all industrialized countries. During the first six months of the year, the average number of jobs[2] in the area declined by 2 per cent, with losses registered in both part-time and full-time employment. However, the situation improved somewhat from July to September, as the number of jobs rose by 1.5 per cent. While this rise was entirely attributable to the gains recorded in part-time employment, full-time job losses are moderating more and more, suggesting that increases could occur shortly. Thanks to this renewed economic activity, the Sherbrooke CMA will end the year with 83,000 jobs, or the same level as in 2008.

For 2010, the improvement of global economic conditions will increase job prospects in the Sherbrooke CMA. Next year, 1,000 jobs will be created in the area, for a total of 84,000 jobs (+1 per cent). This small gain can be explained by the lag that is generally observed between an economic recovery and the ensuing upturn in employment, as companies are more prudent in their hiring decisions.

As mentioned in the last issue of the *Housing Market Outlook* report for the Sherbrooke CMA, several factors will help boost the economy and, in turn, housing activity in Sherbrooke over the coming year. Firstly, the different levels of government are the largest employers in the CMA, which makes employment less sensitive to economic fluctuations. Secondly, from January to September, the job losses were mainly concentrated in the young labour force, whose incomes are usually lower than those of older workers. Despite these losses, demand on the new home and resale markets will remain steady over the coming year, as young people usually enter the rental market when they leave the family home. Lastly, for the past few months now, the participation and employment rates have been on the rise in the area, showing that Sherbrooke residents are increasingly present on the labour market.

Mortgage rates

The Bank of Canada cut the target for the overnight rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009 but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

International and interprovincial migration on the rise

According to the latest revised figures for 2007, net migration in the Sherbrooke CMA reached just over 950 people, a level slightly below the average for the last few years. From 2008 to 2010, net migration should post small gains, on account of three major factors. First, the Quebec government will substantially increase the targets for the number of newcomers during this period, which is good news for the Sherbrooke area[3]. Second, the number of people having left the CMA for other provinces across Canada probably decreased, given the difficult economic conditions prevailing out West. Third, net interregional migration in the CMA remains positive, albeit low, thanks to the arrival of a number of young Quebecers in Sherbrooke's institutes of higher education. Between 2008 and 2010, more than 3,000 migrants will therefore be looking for dwellings, mostly rental, in the Sherbrooke area, which will stimulate housing demand.

MLS® sales and average price to increase in 2010

In 2008, MLS® sales in the Sherbrooke CMA fell below the 1,900-unit mark for the first time, to a total of 1,864 transactions to be exact, which was the lowest sales volume ever recorded since these data became available. With decreases in sales registered in the first and second quarters (declines of 4 per cent and 6 per cent, respectively), the resale market had started 2009 on a bad note in the CMA. However, by year-end, the low mortgage rates and improving economic conditions will boost activity on this market, and MLS® sales will end the year at practically the same level as in 2008. This situation was not unique to the Sherbrooke

[2] Data for the Sherbrooke CMA exclude Magog. Employment data in the manufacturing sector of the MRC de Memphrémagog for 2008 are available, however, in the Rapport annuel 2008 du CLD de la MRC de Memphrémagog. The number of manufacturing jobs in this MRC was down 17.6 per cent in 2008, compared to 2007.

[3] Since 1996, the Sherbrooke CMA has received, on average, 2 per cent of the immigrants arriving in Quebec.

area, as several areas across the country also benefited from significant increases in sales in recent months.

The ongoing improvement in economic fundamentals is pointing to an increase in MLS® sales in 2010. With more and more favourable conditions on the labour market and incomes rising more considerably than last year, many households wishing to buy a home will start looking again in the Sherbrooke area. In addition, as mentioned earlier, employment for people aged from 25 to 64 years should continue to do better in 2009, which will stimulate demand on the resale market next year. In fact, it should not be forgotten that our forecasts call for continued favourable financing conditions throughout 2010, which will reduce mortgage carrying costs for potential buyers. For these reasons, MLS® transactions will rise by 4 per cent in 2010, to 1,950 units.

On the supply side, the number of homes listed in the MLS® system has now been on the rise for five years in the Sherbrooke CMA. In the first quarter of 2009, the volume of listings was not really any different from the levels registered in recent years, rising by 14 per cent over the same period last year. In the second quarter, however, active listings fell by 3 per cent. And this downward trend should continue this year and next year, for several reasons. First of all, as previously indicated, fewer people will be leaving the area to settle elsewhere[4], which will reduce the number of "For Sale" signs in the CMA. In addition, with the renewed sales activity, homes will not stay as long on the market. Finally, a historically high number of listings was recorded in 2008, so this will make for larger declines in 2009 and 2010. As a result, active listings will fall by 7 per cent this year and then by 3 per cent next year, to 1,500 and 1,450 units, respectively. However, since the housing stock grows—and potential listings increase—from year to year, the decrease in listings might still be smaller than anticipated.

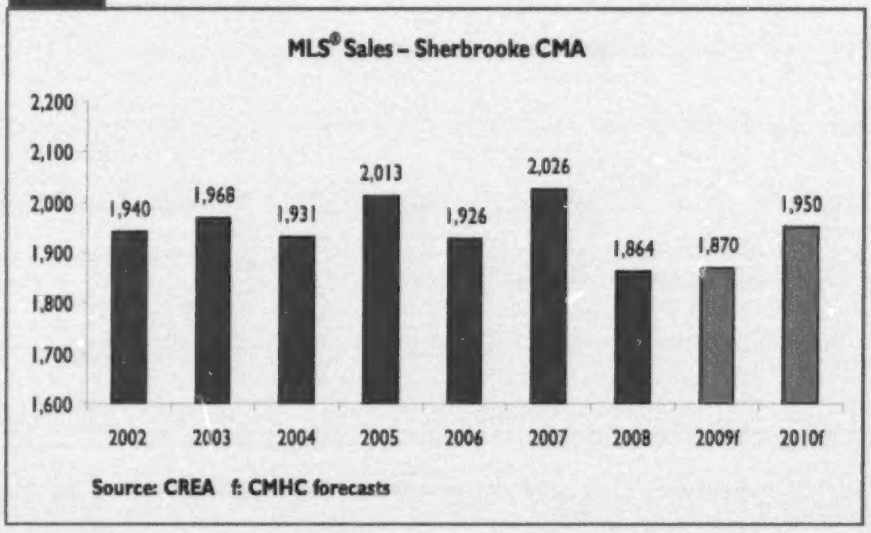
Given the growing housing demand and the decreasing supply of existing homes in the Sherbrooke CMA, the market will become balanced in 2009 and 2010. The average MLS® price will climb by 4 per cent this year and next year, to $186,600 and $194,000, respectively. These increases will in fact be halfway between the hikes observed at the beginning of the current decade, when the market was favouring sellers, and the rises registered in 2008, when the market had shifted into buyer's territory.

New home market activity to slow down but remain strong in 2010

From January to September 2009, foundations were laid for 526 single-detached homes in the Sherbrooke CMA, down by 9 per cent from the first nine months of 2008. This decrease came as no surprise, though, as, in addition to economic conditions being less favourable, the single-detached home starts volume recorded in 2008 was the highest in the last 20 years, which has made for a larger decline so far this year. And, it will not be possible to reverse this trend in the fourth quarter, such that the area will end 2009 with 700 single-detached housing starts, or 13 per cent fewer than last year.

However, several factors are pointing to an increase in single-detached home building in 2010. Firstly, the improved economic outlook in the area will allow a number of households to start or resume their search for a new home. Secondly, several contractors in the area are focusing their efforts on the construction of relatively affordable single-detached houses, which is attracting households who want to access homeownership without having to pay excessive mortgage carrying costs. These homes must

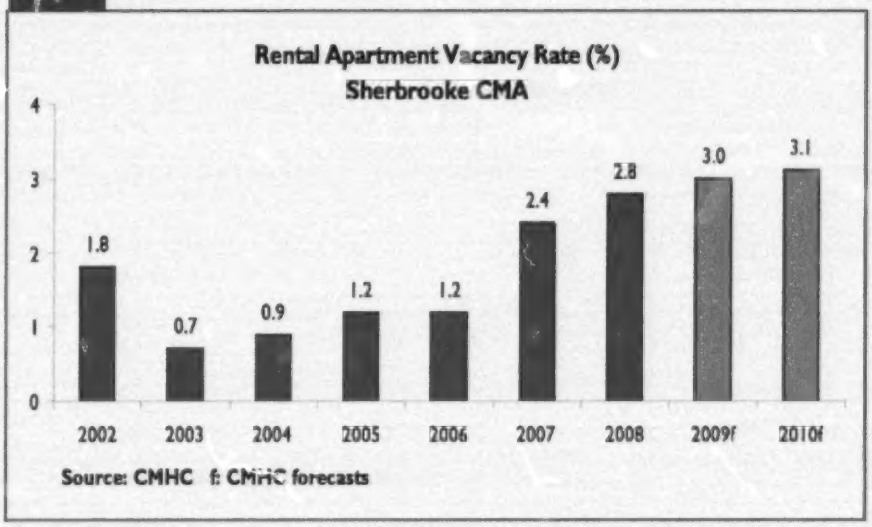
Figure 2



[4] In other regions within or outside Quebec.

appeal to first-time buyers wishing to leave the rental market, with mortgage payments similar to their current rents. Thirdly, inventories of unabsorbed new single-detached houses remain at historically low levels, so they will not deter contractors who want to increase their rate of production. Lastly, the fact that the Sherbrooke area, contrary to other CMAs (particularly Montréal and Québec), still has many lots located close to downtown and major arteries works in favour of single-detached home building. For all these reasons, foundations will be laid for 720 single-detached houses in 2010, for an increase of 3 per cent over this year. The average absorption price of these units will be $202,200 in 2010 (+1 per cent). This small rise will be mainly due to the construction of a significant number of affordable single-detached homes.

Figure 3



Contrary to the single-detached home construction, multiple-family (semi-detached, row and apartment) housing starts have risen considerably since the beginning of the year. At the end of September 2009, such starts were up by 52 per cent over a year earlier. Given this non-negligible gain, we are revising our forecasts and now expect that multiple-unit housing construction will rise by 5 per cent this year (from 825 units in 2008 to 865 in 2009). This increase may seem minimal compared to the hike registered so far, but it must be taken into account that the volume of activity recorded in the last quarter of 2008 had been boosted by the start of construction on a rental housing complex for seniors.

It will be a whole different story for the multi-unit housing segment in 2010, as starts of this type will drop by 25 per cent (to 625 units). It is important to mention, however, that this decrease will be more significant as a result of the vigorous activity recorded in 2009, particularly in the rental apartment segment. However, on account of the successive vacancy rate increases registered in the last five years, rental apartment starts will be less numerous in 2010, falling to 400 units from more than 500 this year. As well, no major retirement housing projects are expected to get under way in 2010 (see the explanations in the last section of this report), which will make for a greater decrease in activity.

Condominium apartment starts, for their part, should rise slightly next year[5] (to 125 units, from about 100 units in 2009). A number of these units should be built near the Centre hospitalier universitaire de Sherbrooke (CHUS), which will allow not only workers to live close to their workplace but also seniors to reside near the largest medical service centre in the CMA.

Also, given the popularity of single-detached homes, fewer semi-detached and row houses—other generally affordable housing types—will be started this year. In fact, construction will get under way on 100 such units in 2010, for a slight decrease from 2009. In all, foundations will be laid for 1,345 dwellings in 2010, down by 14 per cent from this year.

Rental market to ease slightly

According to the results of the Rental Market Survey conducted by CMHC in October 2008, the rental apartment vacancy rate increased in the Sherbrooke CMA. Now on the rise for the past five years, this rate reached 2.8 per cent. The report on this survey also indicates that

[5] It is important to specify that large condominium projects with services for seniors could be started in 2010. Given that the exact start dates are not yet known for all major projects and that the schedules may change, the preceding forecasts are based on the assumption that most of these projects will not get under way in 2010. It is still possible, though, that some projects will be started in 2010, which would change the preceding forecasts.

the greater proportion of renter households now buying homes was one of the factors that accounted for these vacancy rate hikes. The increase in existing home sales and the historically high starts levels are signs that the homeownership trend should continue in 2009 and 2010. However, since the economy is picking up only gradually, fewer renter households will be buying a first home than in past years, which will therefore limit the rise in the vacancy rate.

As for the young labour force, substantial employment losses among people aged from 15 to 24 years will cause some in this age group to delay their decision to leave home, which will lower demand for rental housing. In 2009 and 2010, demand will essentially be stimulated by the improvement in net migration in the Sherbrooke CMA.

Given these demand conditions and a greater rental housing supply than in 2008, the vacancy rate will rise in 2009 and 2010, to 3 per cent and 3.1 per cent, respectively. As a result, the average rent for two-bedroom apartments will be $555 this year and $565 next year.

Vacancy rate in retirement homes to remain stable in 2010

The results of the latest Seniors' Housing Survey conducted in the Sherbrooke CMA revealed that the vacancy rate in retirement homes reached 9.7 per cent in 2009. This rate will remain relatively unchanged in 2010, as demand and supply will stay rather stable.

Because of the decline in the birth rate that occurred during the depression of the 1930s, the population aged 75 years or older will be growing more slowly, which will curb the increase in demand. In fact, again according to our latest survey, about one in three people aged 75 years or older already lives in a retirement home in the capital of the Eastern Townships—the highest proportion among all large urban centres in Quebec. This will limit the pool of new potential clients, at least in the short term. On the supply side, the latest information indicates that no major projects are planned in the Sherbrooke area for 2010, as several large retirement homes have been started in recent years.

Forecast Summary (1) Sherbrooke CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	1,926	2,026	1,864	1,870	0	1,950	4
MLS® Active Listings[2]	1,369	1,439	1,611	1,500	-7	1,450	-3
MLS® Average Price ($)	$160,973	$176,263	$179,434	$186,600	4	$194,000	4
New Home Market							
Starts:							
Single-Detached	473	666	802	700	-13	720	3
Multiples	832	652	825	865	5	625	-28
Starts - Total	1,305	1,318	1,627	1,565	-4	1,345	-14
Average Price ($) - excluding Magog:							
Single-Detached	$191,177	$195,868	$197,904	$200,000	1	$202,000	1
New Housing Price Index (% chg) (Que.)	4.4	4.2	5.0		-		-
Rental Market - excluding Magog in 2006							
October Vacancy Rate (%)	1.2	2.4	2.8	3	-	3.1	-
Two-bedroom Average Rent (October) ($)	$515	$529	$543	$555	-	$565	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-	3.83	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-	5.75	-
Annual Employment Level - excluding Magog	81,900	84,100	83,000	83,000	0	84,000	1
Unemployment rate (%) - excluding Magog	7.9	6.4	6.2	7.0	-	6.4	-
Net Migration - excluding Magog	874	965	1,000	1,050	5	1,100	5

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

(1) According to Statistics Canada's new definition, the Sherbrooke CMA now includes the municipality of Magog. Statistics have been adjusted except where indicated.

(2) Source: QFREB by Centris® as of January 2009

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Canadian Real Estate Association (CREA), Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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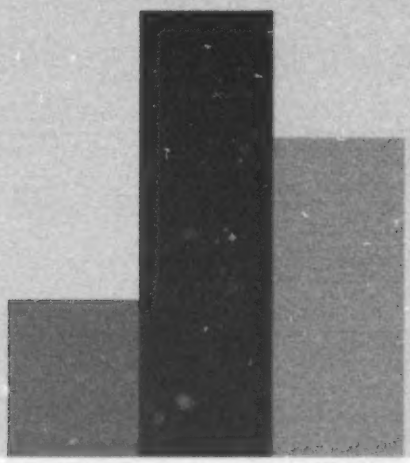

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